

# Hepburn on Financial Situation

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**A**T THE time that the speculative frenzy of Wall street was responding instantly and freely to the many propositions of capitalists and others who were perfecting industrial combinations or trusts, as they are sometimes called, A. Barton Hepburn, vice president of one of the largest banks of New York, felt that the moment was opportune to sound a note of warning.

His long experience as a banker, and especially as the comptroller of the currency (which is the administrative authority over the national banks of the United States), and the accuracy with which many of his earlier predictions had been fulfilled, caused much attention to be paid to the few cautious, careful and moderate words which he spoke. It seemed to him that the country was advancing too rapidly for the capital that it possessed. He thought that the organization of industrials and the expansion of new capital ought for a time to be checked.

What he said, while it attracted much attention, did not seem to affect the action of any one who was busily engaged in manufacturing capital stocks or in speculating the market or promoting the sale of new stocks. Yet, what Mr. Hepburn felt justified in saying in a few words was echoed in a brief opinion expressed by Russell Sage. Whatever Mr. Sage says is sure to fix, at least for the moment, the attention of every one engaged in financial affairs. But there is a natural wonder whether a capitalist of such vast resources, and one especially whose chief vocation is that of lending money upon call, might not be tempted sometimes to express an opinion for the purpose of influencing the market. No one can say justly that Mr. Sage ever did that, and yet what he says is usually accepted with some reservation.

A few weeks after Mr. Hepburn had ventured the cautious opinion, that there should be a check to capital expansion, one of his successors as vice president of the largest of American banks, as he was also a successor of his as an officer of high authority in the Treasury department, having been assistant secretary of the treasury, in a more formal and emphatic manner, at a public banquet and in response to a toast, expressed exactly the idea which both Mr. Hepburn and Mr. Sage had thought it worth while to declare as their own.

This banker, F. A. Vanderlip, argued, with some detail, that the surplus capital of the country had been practically exhausted by the enormous drafts that had been made upon it in the last five or six years and that there could not be much more expansion without causing shock, demoralization and, probably, disaster. What each of these three widely known financiers predicted, the great money center of the United States, and, reactively, the other money centers, had been feeling throughout the entire summer.

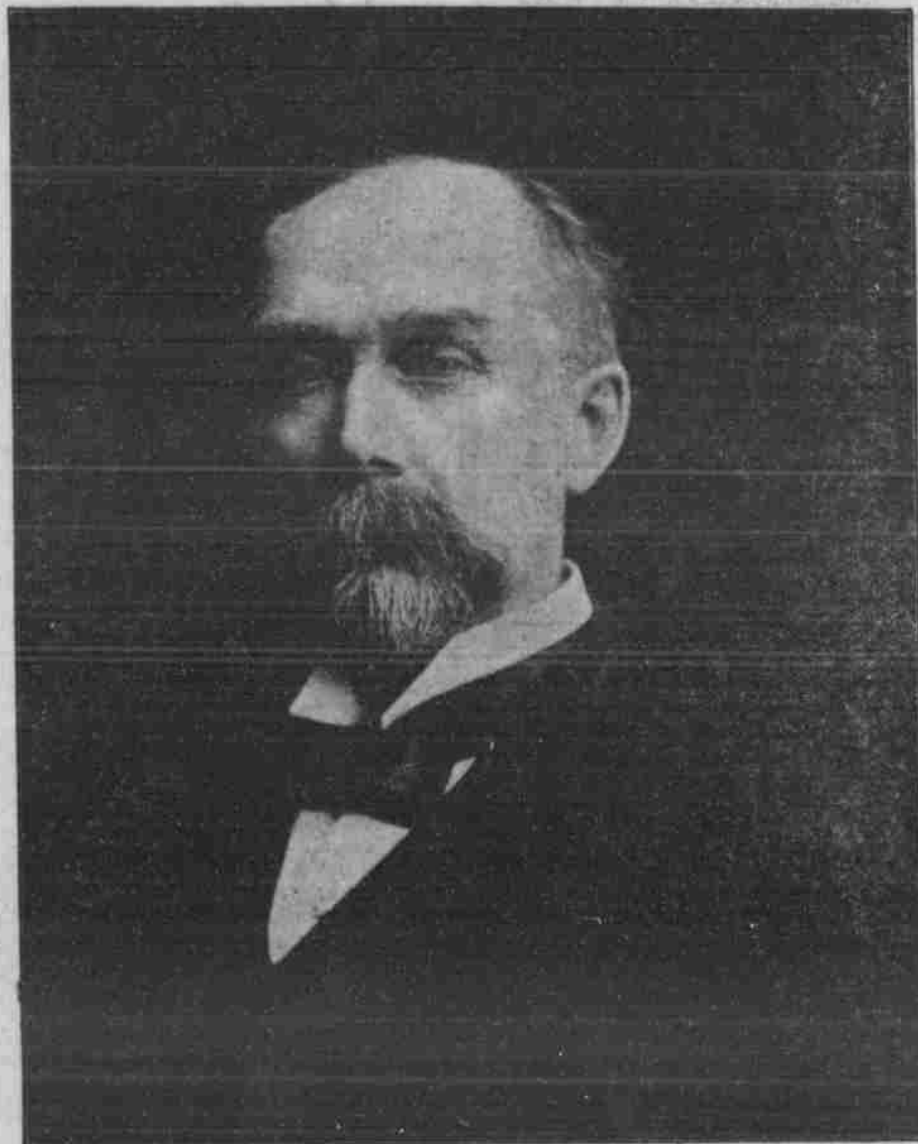
During the period of the most severe depression and excitement in New York City, Mr. Hepburn was the guest of an association of bankers in New England and to them made an address in which he touched upon certain currency questions; and, after that address, in a more informal manner, added to what he then said and what he had spoken a year earlier in the way of monition. He declared that in his view it was probable, if not inevitable, that there would be in general commerce, business and industry, a reaction, just as there had been in the world of finance, stocks and speculation.

It was known in New York that this was the opinion of many of the leading bankers, but not any of them cared to express it publicly. Mr. Hepburn was asked to explain in some detail the financial conditions both of business and of corporations, as well as of the currency situation, which was in some features so acute during the summer of 1902 that President Roosevelt felt that he might be justified in summoning congress into extraordinary session, partly for the purpose of considering the currency question.

When Mr. Hepburn was asked what was meant by his statement that the surplus capital which had been so handsomely accumulated in the last five or six years had been absorbed, he replied:

"Soon after the country, in the great political canvass of 1896, decided in opposition to the financial dogmas with which Mr. Bryan's name was identified, there began to be a reaction from the period of distress and demoralization which had characterized the years from 1890 to 1896. In addition to that there were two or three years of most favoring crops and the repeal of the so-called 'Sherman silver law' in the summer of 1893 had caused confidence to some extent to be restored; but it was not to be perfectly restored until the people of the United States had decided, in a general election, whether there was to be free and unlimited coinage of silver at the ratio of 16 to 1, or whether the gold basis was to be established as the permanent basis of our currency.

"It so happened that a year or two later there came the announcement of the discovery of enormous deposits of gold in



A. P. HEPBURN.

the whole Alaska peninsula and almost coincidentally with that there was a great increase in gold production in the United States. Now all of these causes operated to restore confidence and, furthermore, to stimulate trade and commerce. We began to export our surplus products in enormous quantities abroad. The apparent trade balance in our favor each year for several years was in the neighborhood of \$500,000,000. Domestic industry and trade were very greatly quickened. The iron and steel industry responded most impressively to this new impulse.

"Through this great productivity of crops, of precious metals and of industrial agencies, the country began to discover that it was accumulating capital. It was able, by means of its surplus foreign trade, to absorb a large amount of American securities held in Europe for many years. It was able to pay off some of our indebtedness abroad; and it was discovered that we were establishing what are called 'bankers' credits' over there. Relatively, I have often thought that the increase of surplus capital in the west was even greater than elsewhere in the United States. Farmers, who had been in debt for many years, were able to pay off their mortgages, to buy improved machinery and to add to their lands, and the records furnished by the banking departments of the various states showed that they were accumulating money.

"We, therefore, had a greater amount of surplus capital—certainly greater in figures, probably greater relatively—than in any other time in our history. The inevitable result of that followed. When blind capital, as it is sometimes called, or surplus capital, becomes very large, it seeks utilization. People want to make as much money as possible. That is the time when capital is in plenty. It is used up in these ways, and then there follow demoralization and panic."

Mr. Hepburn was asked to detail more specifically some of the uses of this surplus capital.

"There were, for one thing, large investments in foreign loans. Some of the richer corporations of New York bought great blocks of European loans. American capital was interested in the financing of some of the English war loans. There began even to be purchases of English consols. In addition to that there came at that time the great impulse to consolidate various industrial properties and to bring together various railway systems; the conspicuous example of that being, so far as industry is concerned, the organization of the United States Steel corporation; and, so far as railroads are concerned, the movements which led to the unification of some of the Pacific railroad systems. These and many minor undertakings—come minor only in the sense that they were not as large as the United States Steel corporation, but were yet very large—were promoted, and for a time found apparently easy absorption.

"But there came a time when it was apparent that the power of absorption was gone. Commercial and financial expansion

had reached its limit. The surplus capital had been used up, so to speak. Credit itself was being strained. And when, a year ago, there came heavy demands for money for crop movements in the west, it was evident to skilled observers that the strain was really upon us. There began to be hesitation, then stronger evidence of the inability or refusal of those who in the past had surplus capital, to purchase securities; and, little by little, the reaction made itself felt, until it culminated in the excitement and vivid object lesson of the summer of 1903."

Mr. Hepburn was then asked to explain what he meant by his intimation that the wise man of business, in view of all that has happened within the first half of the year 1903, would check his own business expansion and curtail and fortify himself against any period of depression or distress.

"The meaning ought to be self-evident. There cannot be any such liquidation as has been in progress for nearly a year without there resulting from it, not only a check to new investments, to new propositions, but also a limitation of demand, which causes a market more or less dull, according to the extent to which the limitation of the demand goes. There is an impression that Wall street is something apart from the rest of the nation. It is something like the view sometimes held by public men that the New York postoffice is a purely local institution; and yet the New York postoffice is of quite as great importance to merchants and manufacturers elsewhere in the country as it is to those of New York City. It was once said by a former postmaster general that the pulsations of its mighty heart are felt all over the country and the world. So, too, the pulsations of the financial heart of the country, which is New York, are even more speedily and perceptibly felt than are those of the great center of the postal system of this country; so that Wall street cannot experience reverses without ultimately the effect of them being also felt throughout the country. Wall street is not a cause, but it is a reflection of all the mighty agencies that make industrial, commercial and agricultural prosperity, as it is an important reflection of all the agencies which make depression and distress. Wall street does not cause all panics, although panics are usually first developed there."

Mr. Hepburn was asked if, in his view, the currency system of the United States was in any way responsible. He replied that, while there were certain features of our currency system, certain defects that should be remedied, yet, on the whole, it is now in a healthful and confidence-giving condition.

"There is no reason," he continued, "why there should be any distinction between the revenues received for customs and those received from internal taxes, so far as the utilization in the discretion of the secretary of the treasury and in the form of deposits in the banks is concerned. If the funds which are now required by law—because collected from customs dues—

to be kept in the treasury until paid out for government expenses were available for the public use, as the funds collected from internal revenue are, that would be a measure affording considerable relief, especially in times of stringency. As to what is called asset banking, I am not of the opinion that the country is ready for it, whatever may be said of its merit as an abstract proposition. The people have become familiar with a bank currency, which they know is as good as gold, because the entire faith of the nation, as expressed in its bond, is behind this currency.

"A bank note issued by a bank at Eastport, Me., passes as readily in circulation in San Francisco as does a greenback or silver certificate, and there is no exchange upon it. This sense of absolute safety will, I feel, prevent any congress at present from approving any method of securing national bank notes that differ from the present one. The government bond which stands behind the note is as sure a protection as the lion itself would be.

"It has seemed to me, however, that it might be worth while for congress to pass such a law as would permit the secretary of the treasury, in his discretion, to grant to any national bank, in time of emergency, the right to increase its circulation up to a certain ratio of its capital. But, of course, a currency of that kind should be made automatic, so that it would be immediately retired when the emergency was passed and that can be done by taxing it at such a figure as to compel its retirement when the rates for money reached a normal figure. That is exactly what happens when the New York clearing house issues its certificates, something that is done only in times of great emergency. The tax upon these certificates is sufficient to compel their instant cancellation when rates for money become normal. Nothing should be done which would make it possible to inflate the paper money of the United States.

"The natural increase of national banks and the new circulation thereby provided and the certainty that for many years, probably, the gold mined each year in the United States and in Alaska will increase the circulating medium by \$5,000,000 or more, ought of itself to provide whatever additional currency the normal and healthful growth of business and production in the United States makes necessary. I am certain that the great development of the west, its capacity to produce noble harvests on the whole—for climatic influences in one part of our country do not affect all parts unfavorably—the opening up of much of the yet undeveloped west, will, of themselves, speedily provide a surplus capital, which, when it is secured, may make possible renewed investments, renewed enterprises and thereby a renewed season of prosperity."

It is now reasonably certain that by reason of the warnings given by Mr. Hepburn and others, and, in addition, the precautionary measures adopted by the Treasury department and the leading bankers, the financial condition and business condition of the country is to be in the closing weeks of the year satisfactory. It is expected that after the new year there will be a healthful revival of investment which will follow an increase of surplus capital.

DANIEL STRONG.

## Watered Stock

As a contribution to the food reform movement, scientists in the United States have been conducting interesting and important investigations regarding fruit and nuts.

In these tests they have demonstrated that the finest varieties of fruits are those that contain the greatest amount of water. A heaped bushel of exquisite peaches, numbering one hundred, contained 92 per cent of water, while small and inferior peaches of the same variety showed only 84 per cent of water. Thus, although there was only 8 per cent of solids in the first bushel, the fruit was vastly superior to that which had just doubled the amount.

Other foods are valued on the basis of the dry matter contained, but fruit is the unique exception; the greater the proportion of water the more desirable it is as an article of diet. With this big volume of water it is the delicate blending in just the right proportion of a small quantity of acid and sugar that imparts distinctive flavors.

In recent experiments much attention has been paid to the waste material in fruit and nuts. The average per cent of waste in apples is found to be 23.8, and in grapes between 25 and 30 per cent. As a rule, the smaller the apple the greater the proportion of waste.—Saturday Evening Post.

## Glimpse Into Mythology

Ajax was defying the lightning.

"You are passing brave," observed an admiring bystander.

"Why so?" demanded Ajax, disdainfully. "Because you are likely to get it in the neck any moment!"

Whereupon Ajax laughed scornfully. "Poor fool," said he, "know you not that I have a rubber neck?"

For which display of wit and bravery he was offered \$500 a week by a vaudeville manager.—Milwaukee Sentinel.